

Presented to the Court by the foreman of the
Grand Jury in open Court, in the presence of
the Grand Jury and FILED in The U.S.
DISTRICT COURT at Seattle, Washington.

APRIL 15 2010
BRUCE RIFKIN, Clerk
By [Signature] Deputy

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

UNITED STATES OF AMERICA,

Plaintiff,

v.

JAMES LIDDELL,

Defendant.

CR 10 0104 RSM

INDICTMENT

The Grand Jury charges that:

COUNTS 1-6

(Wire Fraud)

I. The Offense

1. Beginning at an exact time unknown, but in or around December 2005, and continuing until in or around January 2009, at Seattle and elsewhere, within the Western District of Washington, JAMES LIDDELL did knowingly and willfully devise and execute and attempt to execute a scheme and artifice to defraud, and for obtaining money and property by means of material false and fraudulent pretenses, representations, and promises; and in executing and attempting to execute this scheme and artifice, did knowingly cause to be transmitted in interstate commerce by means of wire communication, certain signs, signals and sounds.

INDICTMENT/Liddell

UNITED STATES ATTORNEY
700 Stewart Street, Suite 5220
Seattle, Washington 98101-1271
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1 **II. Object of the Scheme and Artifice to Defraud**

2 2. The object of the scheme and artifice to defraud was to obtain money from
3 investors, based on false representations that JAMES H. LIDDELL was borrowing the
4 money to finance the purchase of point of sale (POS) terminals which he falsely claimed
5 would be sold for a profit. In fact, as he then well knew, during the course of the scheme
6 and artifice to defraud, JAMES H. LIDDELL did not purchase POS terminals with the
7 investors' money and did not have contracts to sell POS terminals. Instead, he used the
8 investors' money for his own benefit and to pay off the loans of earlier investors in order
9 to conceal his false statements and continue his scheme to defraud.

10 **III. Manner and Means of The Scheme and Artifice to Defraud**

11 **A. Payright Merchant Services**

12 3. It was part of the scheme and artifice to defraud that on or about January 1,
13 2003, JAMES H. LIDDELL registered Payright Merchant Services as a sole
14 proprietorship with the Washington Statement Department of Licensing and Washington
15 State Department of Revenue. Payright Merchant Services was purportedly engaged in
16 the business of buying and selling point of sale equipment to retail businesses with its
17 principal place of business in Seattle, Washington.

18 4. It was further part of the scheme and artifice to defraud that JAMES H.
19 LIDDELL opened, or caused to be opened, bank accounts in the name of Payright
20 Merchant Services at Bank of America, Edward Jones, Fidelity Investments, Frontier
21 Bank, Washington Mutual Bank, and Wells Fargo Bank. JAMES H. LIDDELL used
22 these accounts to negotiate checks from investors and to write checks payable to investors
23 in furtherance of the scheme and artifice to defraud.

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1 **B. Defendant's Fraud and False Representations Regarding Payright Merchant**
2 **Services**

3 5. It was further part of the scheme and artifice to defraud that JAMES H.
4 LIDDELL solicited investors in his company by initially falsely representing that Payright
5 Merchant Services had contracts to purchase used POS terminals and resell the terminals
6 to a manufacturer that would refurbish the units for resale. JAMES H. LIDDELL falsely
7 represented to the prospective investors that he brokered these transactions and that he
8 needed to borrow funds from the investors to purchase the used POS terminals so he
9 could sell them to the manufacturer at a profit. He told the investors that each investor
10 loan would fund a particular contract or series of contracts and that he would share the
11 profits from the contracts with the investors. In truth and in fact, as he then well knew,
12 there were no such contracts.

13 6. It was further part of the scheme and artifice to defraud that JAMES H.
14 LIDDELL also falsely represented to investors that the business of Payright Merchant
15 Services involved selling refurbished POS terminals to a large Seattle, Washington area
16 drug store chain. JAMES H. LIDDELL falsely represented to the investors that Payright
17 Merchant Services had entered contracts for the purchase of refurbished POS terminals
18 from the manufacturer and that he needed to borrow funds from the investors to purchase
19 the refurbished POS terminals at a discount so he could sell them to the drug store chain
20 at a profit. He told the investors that each investor loan would fund a particular contract
21 or series of contracts and that he would share the profits from the sales of the refurbished
22 POS terminals with the investors. In truth and in fact, as he then well knew, there were
23 no such contracts.

24 7. It was further part of the scheme and artifice to defraud that JAMES H.
25 LIDDELL would show prospective investors forged sales agreements and purchase
26 orders that falsely indicated he had entered contracts for the purchase and/or sale of
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1 particular POS terminals to the manufacturer or the drug store chain when, as he then well
2 knew, there were no such sales agreements and/or purchase orders.

3 8. It was further part of the scheme and artifice to defraud that JAMES H.
4 LIDDELL would often provide the investors with promissory notes memorializing each
5 loan agreement. The promissory notes would typically provide for repayment of the loan
6 with interest and profits on the contract within 20 to 45 days. The rate of return on the
7 loans varied from 5.8% to 9.9% and some investors were also promised between 14% to
8 50% of the gross profits on the sales transactions.

9 9. It was further part of the scheme and artifice to defraud that investors
10 received their agreed upon rate of return on their initial investment. JAMES H.
11 LIDDELL would then typically offer the investors the opportunity to reinvest their
12 money. Many of the investors accepted this offer.

13 10. It was further part of the scheme and artifice to defraud that JAMES H.
14 LIDDELL falsely represented that the payments he made to investors came from the
15 profits he was making from the purchase and sales of POS terminals when, in truth and in
16 fact, as he then well knew, the payments were actually made using money from other
17 investors.

18 11. It was further part of the scheme and artifice to defraud that JAMES H.
19 LIDDELL would often deposit checks into investors' accounts falsely representing that
20 the checks represented the proceeds of the contracts funded by the investors when, as he
21 then well knew, the accounts on which the checks were drawn contained insufficient
22 funds to cover the amounts written on the checks.

23 12. It was further part of the scheme and artifice to defraud that JAMES H.
24 LIDDELL would solicit new investments from the investors before they discovered the
25 fraudulent nature of the checks deposited into their accounts, in order to further advance
26 the scheme.

13. It was further part of the scheme and artifice to defraud that JAMES H. LIDDELL would often deposit checks from new investors directly into the bank accounts of older investors while falsely representing that the funds represented the proceeds of contracts that the older investors had funded.

C. Losses Resulting from the Scheme and Artifice to Defraud

14. It was further part of the scheme and artifice to defraud that JAMES H. LIDDELL raised in excess of \$3,000,000.00 through the sale of promissory notes to thirteen different investors who were misled into believing that they were investing in the purchase and sale of POS terminals. As a result of JAMES H. LIDDELL'S scheme and artifice to defraud, victims lost approximately \$1.2 million that he used for his personal benefit. The remainder of the funds were used to pay back prior investors.

IV. Execution of the Scheme and Artifice to Defraud

15. On or about the below-listed dates, within the Western District of Washington and elsewhere, JAMES H. LIDDELL, for the purpose of executing the aforementioned scheme and artifice to defraud and to obtain money by means of false and fraudulent pretenses, representations, promises and omissions of material facts, and attempting to do so, did knowingly and intentionally cause to be transmitted, in interstate commerce by means of a wire communication, certain signs, signals, and sounds, that is, wire transfers of funds, between investor accounts and an account at Frontier Bank in the Western District of Washington that was controlled by JAMES H. LIDDELL, each of which was transmitted in interstate commerce via the Fedwire system in New Jersey:

Count	Date	Wire Transaction	Amount
1	02/06/2007	Wire transfer from Frontier Bank account of Payright Merchant Services to Qualstar Credit Union account of V.S.	\$72,160.00
2	03/13/2007	Wire transfer from Qualstar Credit Union account of V.S. to Frontier Bank account of Payright Merchant Services	\$80,000.00

3	04/03/2007	Wire transfer from Frontier Bank account of Payright Merchant Services to Bank of America account of B.C.	\$15,040.00
4	07/03/2007	Wire transfer from Washington Mutual bank account of B.F. to Frontier Bank account of Payright Merchant Services	\$76,900.00
5	06/16/2008	Wire transfer from Boeing Employees Credit Union account of J.D. to Frontier Bank account of L.C., DBA Payright Merchant Services	\$168,000.00
6	07/01/2008	Wire transfer from Boeing Employees Credit Union account of J.D. to Frontier Bank account of L.C., DBA Payright Merchant Services	\$47,000.00

All in violation of Title 18, United States Code, Sections 1343 and 2.

FORFEITURE

1. The allegations contained in Counts 1 - 6 of this Indictment are hereby realleged and incorporated by reference for the purpose of alleging forfeitures to the United States pursuant to Title 18, United States Code, Section 982(a)(2) and Section 1029(c)(1)(C), and Title 31, United States Code, Section 5317(c)(1).

2. Upon conviction of one or more of the offenses charged in Counts 1 - 6 above, in violation of Title 18, United States Code, Section 1343, JAMES H. LIDDELL shall forfeit to the United States of America, pursuant to Title 18, United States Code, Sections 982 and 984, any and all property, real or personal, that constitutes or is derived, directly or indirectly, from proceeds traceable to the offense.

3. The property to be forfeited includes, but is not limited to the following:

a. A money judgement in the amount of \$1,217,520.00, representing the proceeds involved in, and obtained as a result of, the offenses charged in Counts 1-6 of this Indictment;

1 b. Substitute Assets. If any of the above-described forfeitable property,
2 as a result of any act or omission of the Defendant
3 i. cannot be located upon the exercise of due diligence;
4 ii. has been transferred or sold to, or deposited with, a third
5 party;
6 iii. has been placed beyond the jurisdiction of the Court;
7 iv. has been substantially diminished in value; or
8 v. has been commingled with other property which cannot be
9 subdivided without difficulty; the United States of America shall be entitled to forfeiture

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1 of substitute property pursuant to Title 21, United States Code, Section 853(p), as
2 incorporated by Title 28, United States Code, Section 2461(c).

3 All pursuant to Title 18, United States Code, Section 982(a)(2).

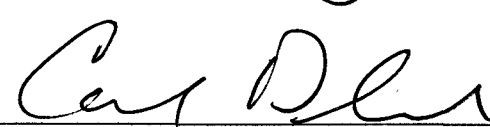
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5 A TRUE BILL:


6 DATED: April 15 2010

7 (Signature of Foreperson redacted pursuant to
8 the policy of the Judicial conference)

9 FOREPERSON

10 
11 JENNY A. DURKAN
12 United States Attorney

13 
14 CARL BLACKSTONE
15 Assistant United States Attorney

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18 NORMAN M. BARBOSA
19 Assistant United States Attorney
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